Best Practice in Financial Planning and Analysis

Empowering FP&A to Bridge the Strategy-Execution Gap

FP&A Trends
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CONTENTS PAGE

1. THE STRATEGY-EXECUTION GAP

Most of us have experienced it: a desire to succeed on your part, or on the part of your organization, only to be faced with an ineffective planning process. In turn, you're asked to achieve unrealistic strategic goals, or, worse, engage in organizational activity that's contradictory to achieving your objectives.

If you've been in this position, you've been at the mercy of what's called "the Strategy-Execution Gap" (SEG). This serious and widespread business problem can be disastrous if you can't identify and correct it in time.

Countless books and articles have been written on how it can be overcome. And yet, the problem persists. In a recent survey of over 6000 executives by PwC's Strategy&[1]:

- Only 37% of respondents say their company has a well-defined strategy — a clear sense of where it's heading.
- Only 35% of leaders think their strategy will lead the company to success.

The question remains: "how do you close the SEG?" We know that if an organization cannot implement what it has promised, then not only has management lost control, but inefficiencies, lost opportunities, increased risks, and missed goals will result. This research paper focuses on explaining how FP&A professionals in the field can act to bridge or eliminate the gap.

"Modern FP&A is best placed to make a difference in overcoming the SEG."

Our approach was to look at the challenges from the perspective of modern **Financial Planning & Analysis (FP&A) professionals, as they are best placed to make a difference in overcoming the gap.** We did this through:

- An analysis of case studies and interviews with senior FP&A personnel in several leading global companies on how they eliminated or significantly reduced the gap between strategy and execution.
- Polling questions at our monthly FP&A Trends webinars, where thousands of finance practitioners share their experiences.
- The ongoing work of the International FP&A Board (in 29 chapters in 16 countries on 4 continents), where our conversations with executives have been valuable in tying observations and themes into insights and best practices.

The findings from this research provide insights in explaining the SEG and, more importantly, how to close the gap using modern FP&A techniques, processes, and technology.

What Is Strategy?

Sergey Oreshkov, Head of Global Supply Chain Finance at The Kraft Heinz Company: "For many people on the shop floor, strategy is often seen through a fog described in "fluffy" slogans not connected with reality. It's important for strategic initiatives and actions to be clear and relate to what people actually do."

Guilherme Saraiva, Senior Director, FP&A at Warner Bros. Discovery, believes that strategic targets should be:

- **Aspirational** – what the organization wants to achieve in the marketplace. They shouldn't be based on a bottom-up approach that reflects the status quo or simply extrapolating previous period numbers.
- A combination of **financial and non-financial metrics.** To make sense, they need to be in context with the competitive nature of the market and the organization's operational data.
- **Flexible,** rather than figures set in stone that must be pursued at all costs.
- Linked to a constant **strategic narrative**.

Strategic plans should aim to keep the business on a path to achieving objectives and profitability goals.

[1] Strategy&. The Strategy Crisis Insights from the Strategy Profiler [Online] 2019.
Available from: https://www.strategyand.pwc.com/gx/en/unique-solutions/cds/the-strategy-crisis.pdf

2. CAUSES AND CHALLENGES OF THE STRATEGY-EXECUTION GAP

According to **Jack Alexander, thought leader and author of "Financial Planning and Analysis and Performance Management", Wiley, 2018**, there are four steps involved in Strategy Execution (Fig 1).

Fig 1:
Four steps in strategic planning and execution

In most organizations, strategy starts with analyzing and assessing where the organization is positioned and the trends in the marketplace. This is then followed by strategy development, where objectives are defined, and alternatives are considered. Once complete, execution planning takes place, followed by monitoring of what actually happens.

The first steps are typically accomplished by senior management in board rooms, while execution is deployed at an operational level on factory floors and offices worldwide. Except in the simplest of companies, multiple layers of management, processes, priorities, issues, opinions, and preferences exist between strategy and execution. Each layer compounds the problem by decreasing visibility and providing ample opportunity for the message to be misinterpreted, diluted, and ignored.

From our research, there are several causes of the SEG as well as challenges that organizations must overcome (Fig 2).

Fig 2:
Causes and challenges of SEG

2.1 Disconnected processes

Most organizations have three key planning processes:

- **Strategic planning** that determines how corporate objectives are to be achieved.
- **Financial planning** where resources are allocated to departmental activities in line with the strategy. This includes setting targets to indicate whether the plan is on course to meet objectives.
- **Operational planning** that determines how individual teams deal with local issues while staying on track to achieve corporate goals. This could include making better use of resources in line with demand and in dealing with unexpected problems.

> "Unfortunately, strategic, financial, and operational planning processes are typically run as separate activities involving different people, measures, systems, and often with unrelated purpose."

Unfortunately, these planning processes are often run as separate activities involving different people, processes, measures, systems, and often with unrelated purpose. In our webinar survey of 550 senior FP&A respondents, we found that only 10% claimed to have fully integrated processes, while 25% had no integration at all.

Marc de Haas, former Global FD – Cocoa & Chocolate at Cargill, has over 20 years of experience within the broader finance function and helped design the FP&A function as part of a worldwide initiative. "There were many layers between the organization's growth strategy and the individuals carrying it out," **de Haas** said. Like most, they had the SEG.

"Strategic planning was an activity that looked five years into the future," **de Haas** continued. "This was translated down throughout the organization to the local level via a three-year group-level plan and a one-year Annual Operating Plan (AOP) made up of commercial, production and functional plans, which ultimately translated into individual goals. However, at the operational level, most long-term targets had the 'hockey-stick' effect. Once annual plans were set, daily work would take over, and people spent much of their time at the bottom of the planning pyramid trying to achieve targets set by the AOP goals."

The problem they had – and which most people experience – was in setting targets that bridged different levels of the company and different time horizons. "When looking at long-term goals, how do you partner with people you don't currently work with or develop products you don't currently have?" **De Haas** asked. "All these are intermediate steps that take time – perhaps years – and don't impact the current Annual Operating Plan."

The challenge is how to integrate these fundamental planning activities, most of which are financially focused and, for operational people, disconnected from day-to-day realities.

2.2 Speed of change

> "Traditional planning that only sees one future with one set of results makes it hard for organizations to respond to unpredictable events."
> Evgeniy Polonski,
> *former Global FP&A Director at Leica Microsystems*

The "span of predictability" is a fundamental concept that explains why traditional planning and forecasting methods do not work well in an environment of change and uncertainty. In this volatile era, the distance into the future for which accurate predictions can be made has reduced. For most organizations, this has fallen to less than one year, which, combined with uncertainty caused by pandemics and political unrest, requires a much more agile strategic, financial, and operational planning process.

Leica Microsystems is a German manufacturer of optical microscopes and equipment for preparing microscopic specimens and related products. They have manufacturing and R&D facilities in Germany, Singapore, China and U.S., with commercial operations in over 100 countries. Like most companies, they had an annual top-down strategic plan that led to a budget and bottom-up forecasts. However, the pace of change, volatility and uncertainty often resulted in plans based on outdated assumptions. **Evgeniy Polonski, former Global FP&A Director at Leica Microsystems**, told us that the traditional approach to planning was no longer effective and had to change.

Similarly, **Thomas Kogelberg, former Head of Controlling and Finance at Avira**, a German multinational computer security software company, found that their product development cycles had reduced from one year to one week, which meant looking at the business by month or year did not work.

The challenge is to create an agile and adaptable planning process to deal with volatility and uncertainty.

2.3 Planning culture

A traditional planning culture that only sees one future with one set of results over a fixed period, e.g., 12 months, makes it hard for organizations to respond to unpredictable events. In preparing plans, many resort to setting targets or allocating resources on a "last year +x%" basis, with penalties for those that 'fail' to achieve them. Consequently, much effort goes into playing the "budget game", where revenues are depressed and costs are elevated. Given that plans are typically prepared 15-18 months in advance, organizations find themselves operating on assumptions made over a year before.

“Failing to identify and address challenges, performance trends and market and economic forces can lead to optimistic plans that are unlikely to be achieved.”
Jack Alexander,
Author and Thought Leader

If this wasn’t bad enough, **Michael Huthwaite, Director of Product Management, Intelligent Reporting at Walmart**, makes the point that, too often, short-term profits or goals drive management compensation. As a result, pressure is placed on operational departments to achieve those goals irrespective of strategic intent, which just becomes a side note. All of this has a detrimental effect on longer-term strategic plans as management focuses on individual line items rather than the bigger picture.

Huthwaite also points out that when it comes to long-range planning, Strategic Business Units (SBUs) are often in competition for resources. Consequently, there is a tendency to overinflate what can be achieved, which manifests itself as a revenue ‘hockey stick’ profile, which creates issues in future years.

2.4 Insufficient strategic analysis

Jack Alexander, author and thought leader, emphasizes that an essential part of strategic planning is performing a comprehensive situation analysis. This should include SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis, recent performance trends, product portfolio analysis, and an analysis of the market and competitive forces. In his experience, he feels this step is often skipped or shortchanged in many organizations. “Failing to identify and address challenges, performance trends, and market and economic forces can lead to optimistic plans that are unlikely to be achieved.”

2.5 Inadequate forecast process

“In today’s volatile business environment, forecasts should be driven by events.”

Forecasts are an essential part of planning. They are the mechanism by which plans are created and investment decisions made. But forecasts can be plagued with inaccuracy. In our 2022 FP&A Trends Survey, the reported satisfaction in forecast accuracy had fallen sharply to 39% (down from 54% in 2021). When it comes to the time taken to produce a forecast, most (56%) respondents reported that it takes longer than five days. This delay makes it hard for organizations to be proactive and map out contingency plans that would allow them to react quickly to unplanned events.

In today’s volatile business environment, forecasts should be driven by events. They should be run on-demand based on changing internal and external business drivers. A modern forecasting process becomes a Scenario Management process, where simplicity and flexibility are more important than the level of detail.

Creating flexible forecasts lies in having good quality data from which the underlying drivers of performance can be found. This requires a great understanding of business which is often provided through advanced analytic capabilities such as Artificial Intelligence/Machine Learning (AI/ML). However, many organizations still rely on outdated technologies such as spreadsheets and simple consolidation tools that are unable to handle either the data or support the processes required for agile planning. Projections and objectives in the strategic plan must be grounded by linking them to key drivers and execution plans, such as revenue contribution from new product introductions, for example.

2.6 Inadequate resource and execution planning

One of the primary reasons that execution fails is “failing to plan.” **Alexander** feels that many strategic plans “do not identify resource requirements (both financial and human) or include a road map that summarizes the execution plan for key strategic objectives. The financial performance expected in three to five years will be the result of efforts in new product development, market expansion, process and cost initiatives etc., over the next year or two. Are human resources on board to execute the strategic initiatives? Are the projections supported by project plans for product development and introduction?”

This point is reinforced by **Bruno Massera, CFO of International Markets at BRF**. “For me, the biggest cause of the SEG is poor strategy communication across the organization,” **Massera** said. “Usually, the strategy remains confined to senior leaders while managers and the remainder of the organization struggle to link their targets and daily operational tasks with organization strategy.”

According to **Massera**, “FP&A could help overcome the SEG by emphasizing how the financial results and business decisions are, or not, linked to strategy. They should remind business leaders whether their strategic choices are aligned with overall corporate and business strategies.”

2.7 Failure to monitor execution

Strategic plans and objectives are often set aside after completion. Performance Management (PM) is generally focused on operational matters and short-term issues. FP&A can play a large role in shifting the focus of PM to include tracking key assumptions and progress on strategic objectives, including new product introductions, economic trends, market, and competitive forces. Dashboards and project reviews should be introduced to the regular cadence of management processes.

! Call to action

You may want to consider whether the Strategy-Execution Gap exists in your organization and the possible reasons.

There may be other causes and associated challenges not included here.

Note them all down and discuss them with colleagues so that a plan of action can be made to overcome them.

3. OVERCOMING THE STRATEGY-EXECUTION GAP: INTEGRATED FP&A

Despite the challenges facing organizations, rethinking the planning process to close the SEG presents significant opportunities. For example, **Ray Curbelo, VP, Partners and Alliances at Anaplan**, believes that as a customer, business, and market data continue to grow in volume, organizations will be able to move to 'Intelligent Forecasting' that combines human intelligence with AI/ML-produced insights. He also proposes that by employing newer technology solutions, organizations will be able to conduct more iterative scenario modeling to identify choices and options.

However, while modern technology is critical in reducing or eliminating the SEG, many of the causes and challenges mentioned form the characteristics of what we call 'Traditional FP&A' (Fig 3). This is where plans are created according to a scheduled calendar that contains only one future (e.g., one annual Strategic and Financial plan, four quarterly forecasts).

While this may have worked in a stable business environment where the span of predictability was closer to 12 months, today's world is very different. Volatility and uncertainty, as well as the increasing volumes of data available for decision-making, require a different, more modern approach to the entire planning and forecasting framework.

Fig 3:
Moving to Integrated FP&A

Integrated FP&A is where organizations assess and support the impact of multiple futures on-demand. They can quickly manage multiple scenarios that combine both bottom-up realities with top-down strategic ambitions and where the whole organization works together for the achievement of corporate objectives. It's an environment where planning is a single continuous process that is agile and adaptable to changing situations and where decisions are data driven and can be made quickly.

"Integrated FP&A is where organizations assess and support the impact of multiple futures on-demand."

Moving to Integrated FP&A presents a major opportunity for FP&A to close the Strategy-Execution Gap. So, how exactly is this achieved?

Our research shows it comprises six areas that, when combined vertically throughout the different management levels of the organization and horizontally across the different departments, will transform how strategy is formed and executed (Fig 4).

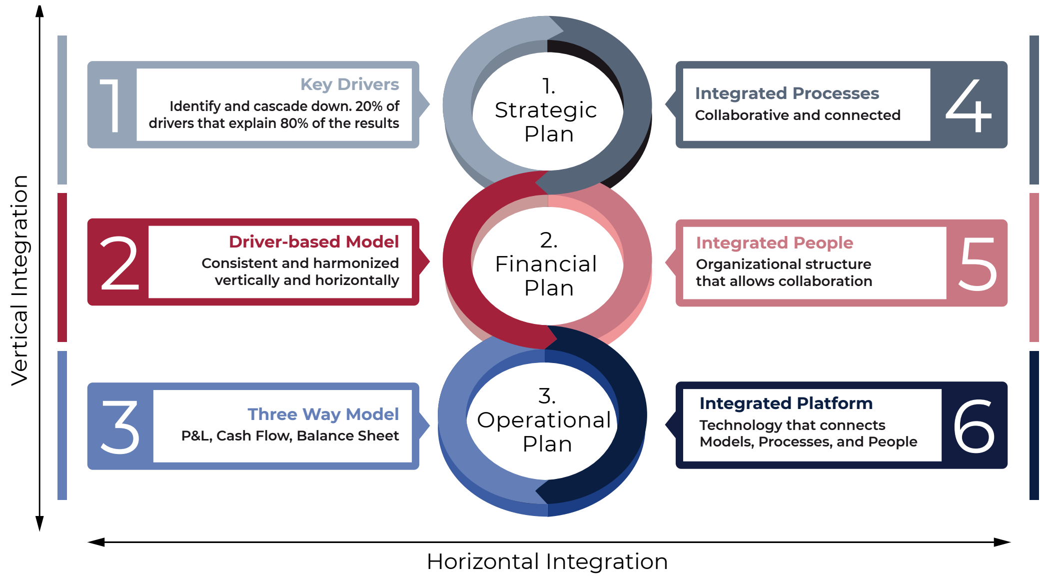


Fig 4:
Six success factors in overcoming SEG

3.1 Key drivers

> "Drivers are measures which, along with their associated rules, represent an operational or strategic cause that significantly influences financial results."

Drivers are measures which, along with their associated rules, represent an operational or strategic cause that significantly influences financial results. In essence, they act as the bridge between data and the external/internal business environment.

Integrated FP&A seeks to find 20% of drivers that explain 80% of the results (Pareto principle). Such key business drivers become the focal point of the modern FP&A framework. They are the basis for dynamic planning and forecasting and in running alternative scenarios. Drivers will not typically appear in the chart of accounts. Uncovering drivers is a process of identifying correlations (cause and effect relationships) between independent actions/inputs and dependent outcomes, and in discussions with operational management. This typically involves a detailed statistical analysis of a range of data, both internal and external, controllable or not.

Some drivers will come in the form of a trend that has a historic repeating pattern linked to a second or more detailed level of activity. Others will appear without warning, as in the recent pandemic when governments took actions that severely restricted the economy – an event that could not have been discerned from historical data.

When planning, drivers are cascaded down throughout the organization, so that every department has visibility of how they affect overall performance. They are also passed through top-down and bottom-up planning models to eliminate any gaps between those planning processes.

"It is important to remember that key business drivers should be regularly checked on sensitivity," said **Jack Alexander, author and thought leader**. "Are they still key business drivers? One of the most important FP&A activities should be uncovering those hidden drivers that are not obvious but are sensitive enough for the planning model. Modern technologies and analytical techniques can help with this analysis."

3.2 Driver-based models

> "Driver-based models provide a single, joined-up story of how the organization performs."

Driver-based models are a mathematical representation that describes how the different functions of an organization interact and the drivers that link strategic objectives with operational activities. They provide a single, joined-up story of how the organization performs. Once created, they enable FP&A to make fast, reliable predictions. By changing just a few numbers, they can produce a revised consolidated result, complete with underlying detail. Fully driver-based models that harmonize strategic, financial, and operational planning processes are the basis for Scenario Management.

According to **Alexander**, "Many strategic plans are based on high-level financial summaries. These summaries must be supported by thoughtful driver analysis." Goals for revenue growth should be disaggregated into the contribution from key drivers, including:

- New product introductions
- Retaining and growing existing customers
- New customer acquisitions
- New markets/channels
- Acquisitions
- Market and competitive environment

Gizelda Ekonomi, Group Financial Planning Transformation Senior Manager at a Fortune 100 company, agrees. In transforming their planning process to overcome the SEG, she recognized that it was vital to understand how each sector moves and the drivers behind those movements. They did this by taking an IBRO approach to revenue planning that model:

I - Inflow of new customers

B - Base (existing customers)

R - Retention - how many customers they retained when their contract finished

O - Outflow - the number of customers they lost

They used AI/ML to identify and forecast drivers, which then fed into driver-based models to generate the P&L. Automation of this process was key; however, it was also essential to allow human judgment and experience to be overlaid on what was being forecast. By analyzing and modeling their performance in this way, they could create actionable insights to identify where there were revenue 'leakage areas' and excess costs.

Adam Salem, Head of FP&A at a Fortune 100 company, oversees a multi-category business with volatility in the supply chain. They had many different planning cycles, so they saw the opportunity to combine them to drive company decisions. "It's about all functions working together, rowing in the same direction." Two factors were essential for them in modeling the company:

1. All functions work together around a single driver-based plan.
2. The plan provides end-to-end inventory visibility of the entire supply chain from suppliers to distributors. "The better we can see this, the better we can plan demand."

Salem also said that some reasonable gaps between top-down targets and bottom-up forecasts might not be bad. "This creates a healthy tension to come up with ways in which we can work together to close the gap."

"Integrated FP&A use connected driver-based models that produce a complete set of connected financial statements, including P&L, Balance Sheet, and Cash Flow."

3.3 Three-way model

In the past, most planning models just focused on the P&L. This continues to be the case for around 70% of organizations today. While this is important, it doesn't help in determining overall organizational value or the impact of investment decisions on Cash Flow. **Integrated FP&A uses connected driver-based models that produce a complete set of connected financial statements, including P&L, Balance Sheet, and Cash Flow.** This provides management with an outlook on financial performance for any given scenario and its funding requirements.

In addition, ultimate performance measures, such as return on invested capital (ROIC) and estimated value creation, should be integrated into strategic planning; these require the use of a three-way model. This comprehensive model can then be used to evaluate strategic alternatives and balanced scenarios based not only on profitability views but cash and capital as well.

3.4 Integrated processes

An integrated process is one that harmonizes the three critical organizational activities of strategic planning, financial planning, and operational planning into one single, continuous process. Although these activities may have different levels of involvement, the outputs and inputs of each sub-process are dynamically linked so that a change in one area is reflected in associated activities (Fig 5). This helps avoid gaps between strategy and execution.

- ☑ Continuous Screening
- ☑ Target Setting
- ☑ Cascading Tactics
- ☑ Bottom-up Forecasts
- ☑ Initiative Development
- ☑ Devolved Accountability

Fig 5:
Integrated process activities

"The link between strategic, financial, and operational processes enables a single, coherent story on how the organization will meet strategic objectives."

For example, strategic goals and resources set within the strategic plan become the focus of the financial plan. The operational plan shows how organizational targets will be achieved within the confines of the financial budget. Actual and forecast performance at an operational level feed into the strategic plan from which senior management can review and change the way the business operates. This linkage enables a single, coherent story on how the organization will meet strategic objectives. It also contributes to having a process that is agile and adaptable. Such a harmonized planning process allows quick re-forecasting and scenario planning on-demand.

This integrated process is characterized by six activities:

- **Continuous screening** of opportunities and threats so the organization knows what the future could hold and is ready to take advantage of or mitigate them.
- **Setting of top-down targets** through fact-based discussions that align with strategic ambition.
- **Cascading of tactics** so that operational goals are realistic and achievable.
- **Bottom-up forecasts** that reassess projections based on the latest results.
- **Development of initiatives** that keep the plan on track.
- **Assigned accountability** by devolving responsibility to individuals for the achievement of goals.

Harmonizing processes starts with looking at organizational strategy and determining how it impacts operational processes. This will involve meeting and discussing with all areas of the organization. As **Sergey Oreshkov of the Kraft Heinz Company** explains, "It's important that you talk to the people on the shop floor to explain what it means to them and what are the actions for them to carry out. It has to resonate with them."

Evgeniy Polonski of Leica Microsystems went about this in 5 stages:

1. Created a Strategy Dashboard by defining WHAT they wanted to achieve. Importantly, it had to fit on one page with two dimensions.
2. Established a framework to prioritize resources along those same dimensions.
3. Brought in functional stakeholders to agree on how the strategic dimensions translated into their own functional priorities.

4. Developed a dashboard for each department that focused on key operational KPIs under each department's control. For example:
    - **Workforce Planning Dashboard:** This contained information on the time taken to fill vacancies, attrition rates on length of service, and hiring success ratios.
    - **R&D Project Dashboard:** This provided information on the status of projects and new products that would drive future growth.
    - **Procurement / Operations Dashboard:** This focused on the order time and stock levels of materials that were mission critical.
5. Used a Rolling Forecast horizon that is not calendar-bound to report how they were performing.

Thomas Kogelberg of Avira took a similar approach by **bringing the different teams around the organization together to transfer knowledge and share learnings on how the business operated.** The aim was to establish and agree on what was actually driving the business. These 'drivers' would then be the basis of all planning, from strategic to operational. They also realized that they had to move to bi-weekly forecasts for drivers so they could develop global, actionable initiatives that would help them achieve strategic goals.

"FP&A today is not just about throwing numbers and more numbers. It is about how we add value to the entire business organization."
Durga Srinivas Perisetti,
Director FP&A and Operations Analytics at Juniper Networks

3.5 Integrated people

Ray Curbelo, VP, Partners and Alliances at Anaplan, warns that overcoming the SEG will require FP&A to build cross-functional partnerships across the enterprise. This is something we refer to as integrated people.

Integrated people is where the whole organization collaborates around the subject of strategy execution. The key planning stakeholders need to be identified as the process should be balanced and not overcrowded. This is where FP&A plays its business partnering role by going outside of finance to spend time with operational and senior management to understand their needs regarding strategy and the challenges they face with execution. FP&A is then positioned to create, educate, and integrate the relevant participants of the process and hence avoid the SEG.

Durga Srinivas Perisetti, Director FP&A and Operations Analytics at Juniper Networks, emphasized that **FP&A today "... is not just about throwing numbers and more numbers. It is about how we add value to the entire business organization."** This means FP&A is moving away from traditional "bean counter" roles to being more strategic and influential throughout the whole organization.

In our recent research, we identified five key FP&A roles that are essential for every FP&A team, together with two emerging roles (Fig 6).

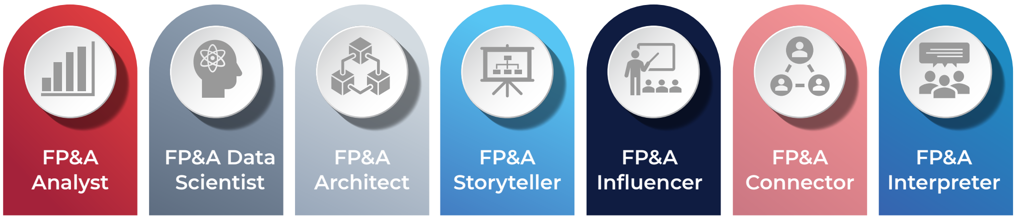


Fig 6:
New and emerging roles within FP&A

1. FP&A Analyst

The FP&A Analyst analyses data and produces reports. They work closely with the FP&A Architect in preparing models and can provide comments and observations on results. The role includes evaluating projects and investments, assessing the use of company assets, overseeing and commenting on the budget and forecast process, and providing ad-hoc analysis for executives.

2. FP&A Data Scientist

The FP&A Data Scientist is someone skilled in using predictive technologies such as AI/ML to uncover drivers and trends that can be used in planning models. They are responsible for extracting, cleansing, organizing, combining, analyzing, and presenting data to help executive decision-making.

3. FP&A Architect

The FP&A Architect is the bridge between IT, Finance and Corporate Strategy. They hold the 'big picture' of how it all fits together. They understand how the business operates along with the systems, processes and business drivers that connect strategy with day-to-day activities. From this, they can collaborate with end users to create analytic models that are typically driver based. These provide the basis for real-time insights and trends that would be otherwise invisible and can enable agile scenario planning and storytelling.

4. FP&A Storyteller

The FP&A Storyteller places results in the context of decisions that need to be made in a way that is engaging and easy to understand, that explains how the results were produced and the actions required. FP&A Storytellers are able to turn complex issues into simple insights that leaders can understand.

5. FP&A Influencer

The FP&A Influencer is someone who works with and influences senior executives on the actions and decisions to be made and how they are implemented. They know how to influence without authority and use their expertise along with the information and analytics produced to help the organization achieve its strategic goals.

Besides the above 5 roles, there are early signs of the emergence of two further roles that significantly extend the overall capability and influence of FP&A.

6. FP&A Connector

The FP&A Connector is someone who links everyone, everything, and every department. They understand the whole business and the pain points and can provide solutions proactively.

7. FP&A Interpreter

The FP&A Interpreter is someone who sits between the business and the analyst to provide the raw materials for the FP&A storyteller. They have a greater understanding of both the operations and visualization techniques for delivering information to different audiences.

These roles can often be split between different people, or one team member can play two or more roles simultaneously. With these in place, FP&A is well-positioned to be a trusted business partner.

"FP&A is there to help the business – not just the financials."

Thomas Kogelberg,
former Head of Controlling and Finance at Avira

Durga Perisetti of Juniper Networks told us that being a business partner means providing options and scenarios that help the organization to do business, not stopping it. Along the same lines, **Thomas Kogelberg, former Head of Controlling and Finance at Avira**, said they became a sparring partner for top management on financial topics that also provide financial insights and recommendations. They also offered deep insights into non-financial topics to support business decisions around the company.

Business partners seek to make the organization better at what they do and so avoid the SEG. One way they can do this is by challenging predictions. **Marc de Haas, former Global FD – Cocoa & Chocolate at Cargill**, said that when they looked at forecasts, there was a heavy amount of bias. "Sales targets were typically low if used for target setting while costs were higher than they should be. There were also many egos to fight".

Their issue was that the planning and forecasting process was not fact-based or data driven, therefore predictions were difficult to challenge. In response, they used sales regression to challenge sales and inflation indices to generate costs. "We pushed beyond the obvious drivers," **de Haas** told us, "and looked at those affecting our customers. This resulted in much better discussions and gives a better outlook on business performance."

Kogelberg said, "It's important to let the business know that **FP&A is there to help the business – not just the financials**. Doing this required technical, analytical, and soft skills training."

For **Demetrio Magalhaes, CFO & IRO at Compass Gás e Energia**, skills fall under two categories:

HARD SKILLS

- Accounting and Performance Management knowledge
- Mastery of analytical tools and data management
- Strong grasp of business strategy and markets

SOFT SKILLS

- Strategic and critical thinking. An insatiable desire to solve business puzzles
- Communication skills
- Innovation and collaboration

3.6 Integrated platform

An integrated planning platform is different from a point solution. Instead of focusing on one aspect of managing performance, such as budgeting or reporting, it **provides a set of tools that can be used to create totally integrated solutions using one set of common building blocks**. As with our previous points, the aim is to have connected systems and processes for the strategy to be fully aligned with execution.

"An integrated planning platform provides a set of tools that can be used to create totally integrated solutions using one set of common building blocks."

The concept is like the familiar Lego approach. Each element is designed to work together, allowing organizations to create a system that exactly meets their needs while being adaptable to change at any time. These platforms are typically cloud-based, meaning users are always on the latest version and can access the system from any location and from any internet-enabled device. They are also easy to use and do not require any technical programming skills. In fact, they are self-service because they are as easy as a spreadsheet but much more robust and analytical.

BRF, a Brazilian food processing company in 117 countries with more than 90,000 employees, has a complex value chain that requires collaboration at every stage, from preparing food to delivering it to customers around the world. **Bruno Massera, CFO of International Markets,** mentioned that each country is different, so the planning approach needs to be different. "It's important that we can match demand with production if we are going to maximize the value of every part of the chain."

Before 2019, they had a traditional approach using spreadsheets and email, but it was not fast enough for them to react. It was also risky and unreliable for the current dynamic business environment. In 2019, they implemented a new system within a modern single integrated planning platform to improve speed and collaboration. It also alerts them to things such as a sudden rise in prices and provides weekly updates. Before implementation, they recognized the need to learn about the tool if they were going to get the best out of it.

Their implementation involved:

- Automating as much transactional work as possible;
- Ensuring there was agility in simulation and re-planning;
- Improving the accuracy of forecasting;
- Utilizing data visualization and analytic capabilities.

Predictive Analytics: AI/ML

One technology that is gaining traction among the people we surveyed is Artificial Intelligence/Machine Learning (AI/ML). At the AI/ML FP&A Committee, we analyzed a number of high-profile case studies where organizations completely transformed their FP&A Processes with AI/ML. They included SBB Cargo AG, Siemens Healthcare, Microsoft, PayU, Konika Minolta, Deutsche Bahn Regio AG, Egencia, Bekaert, Sandoz, Flex, Jaguar Mining Inc., Vodafone, and Swarovski. Our 2022 FP&A Trends Survey identified that the use of AI/ML improved FP&A's value add to the organization through improved insight generation and driving actions by 16% (Fig 7).

Fig 7:
The impact of technology on improving FP&A time spent on high-value activities

	AVERAGE	Use of AI/ML	Cloud	Driver-based
Insight Generation	18%	25% *+7%*	21% *+3%*	19% *+1%*
Driving Actions	15%	24% *+9%*	16% *+1%*	16% *+1%*
TOTAL	33%	49% *+16%*	37% *+4%*	35% *+2%*

"AI/ML technology can aggregate and process data with far great speed, gives better insights, accuracy, and scalability than is humanly possible."
Gizelda Ekonomi,
Group Financial Planning Transformation Senior Manager at a Fortune 100 company

Gizelda Ekonomi, Group Financial Planning Transformation Senior Manager at a Fortune 100 company, knew that AI/ML technology would be a critical capability for better planning and forecasting. She states, **"It's a technology that can aggregate and process data with far greater speed. It gives better insights, accuracy, and scalability than is humanly possible."** However, in conversations with stakeholders, she found:

- They didn't want AI/ML to be a Black Box solution – they wanted to understand AI/ML and how it affects financial drivers.
- Accuracy of AI/ML forecasting vs human forecasting was key to gaining trust and understanding the value.

Gianluca Capuano, former FD at Janssen Europe, Middle East and Africa, had his team use AI/ML to streamline and improve forecasting accuracy. They did this by developing several models that can be used depending on the type of product being forecast:

- Time-series analysis for established brands where the past 5 years of data is the best predictor of the future
- Clustering for product launches that are similar to existing products
- Analogues where the product brand has a similar profile to other brands
- Country models where a competitor has already launched a similar product

Data for these models came from internal and more than 10 external data sources that covered market conditions.

What they achieved was an automated forecast model for established brands and a risk assessment for event-based brands. They are now looking at how they can make the models richer in their analyses where they automatically choose which algorithms/models will give the best results.

"Improving forecasts is about improving the process and bringing objectivity to decision-making."
Gianluca Capuano,
former Finance Director at Janssen Europe, Middle East and Africa

Capuano has a word of warning, though: **"Improving forecasts is about improving the process and bringing objectivity to decision-making.** There is no magic wand – it's important to bring user intelligence to work with the results of AI/ML."

! Call to action

Where is your organization placed in these 6 areas?

Is this something that is being worked on?

Do senior managers recognize the value of an Integrated FP&A department?

What would FP&A be able to do better to close the SEG if these were in place?

The Role of Integrated Planning Platforms in Strategy Execution: Swarovski Case Study

The Swarovski of today is very different from its former self. In the past, the business got by with quarterly forecasting and planning for the entire year with a static cycle that was primarily bottom-up from store-level granularity. However, with these outdated business processes, they struggled to stay ahead of competitors.

Today, **Michael Nudelmann, Director Controlling / Head of Corporate FP&A**, tells us they can confidently plan at both the store and consolidated levels, where they utilize a monthly forecast, 2-year rolling budget, and dynamic, driver-based modeling with predictive and validating technologies.

With a new system in place, Swarovski has been able to move past spreadsheets and into the future by enabling the agility to anticipate trends and changes. By keeping a short-term focus and advancing to a medium-term view, faster decision-making based on improved insights has led to a deeper business understanding and decreased manual processes.

Looking back on their journey with their new integrated FP&A planning platform, there are certainly lessons to share and pass along. **Nudelmann** found that using advanced technologies is key to creating trended unbiased insights. Furthermore, by enabling local teams to work on local drivers while major teams work on higher-level drivers, the overall business model becomes much more transparent and accurate.

Using Anaplan's modern planning platform as a collaborative "one-stop shop" for financial planning has resulted in a truly driver-based integrated model. It sets the stage for an enhanced FP&A that can generate significantly more insights with much less manual effort.

4. KEY TO OVERCOMING THE SEG: SCENARIO MANAGEMENT

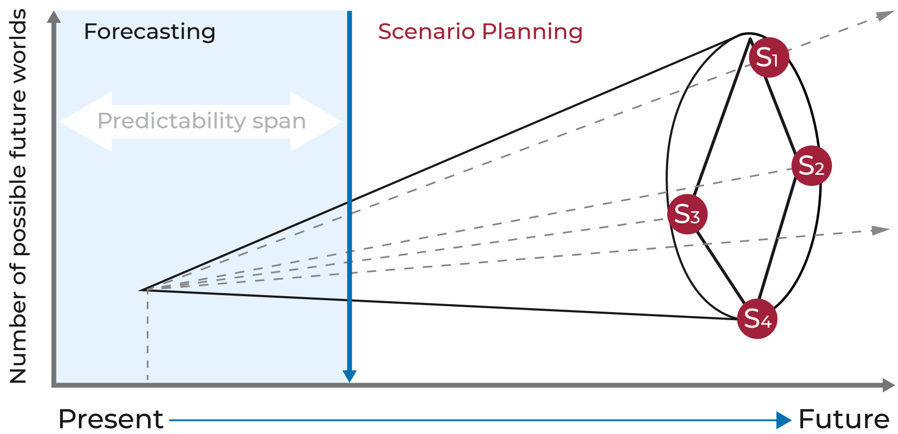
"Scenario Management is the only method of planning, whether strategic or operational, that makes sense when you cannot predict the future."

Overcoming the Strategy-Execution Gap is all about Scenario Management. This activity incorporates the areas mentioned earlier of utilizing drivers within driver-based models that can produce P&L, Balance Sheet, and Cash Flow statements. **When used as part of an integrated planning process and supported by an integrated technology platform, it becomes a powerful decision-support tool.**

Scenario Management has evolved from traditional Scenario Planning (e.g., Best-case, Worst-case, Base-case), not only in approach but also in mindset. Scenario Management recognizes that a "One Plan-One Forecast" approach is inadequate for managing uncertainty. Organizations can be better prepared for future "black swans' and "perfect storms" by adopting the Scenario Management mentality and framework shown below.

4.1 Decision focused

Michael Huthwaite, Director of Product Management, Intelligent Reporting at Walmart, asserts that strategy is rooted in real options, where decisions are made based on the perceived choices available. Whereas traditional planning typically only sees one future, Scenario Management allows multiple futures to be assessed along with agreed action plans for each (Fig 8).



Scenario 1 (S1): Change in government legislation

Scenario 2 (S2): Excess demand on scarce raw materials

Scenario 3 (S3): Social media influence changes market acceptance

Scenario 4 (S4): Pandemic worsens

Source: Adapted from the 'Uncertainty cone to bound the future' by Paul Schoemaker

Fig 8: Scenario Management: Preparing multiple action plans

Huthwaite also stresses that each scenario should produce a full P&L, Balance Sheet, and Cash Flow in order for each option to be adequately assessed.

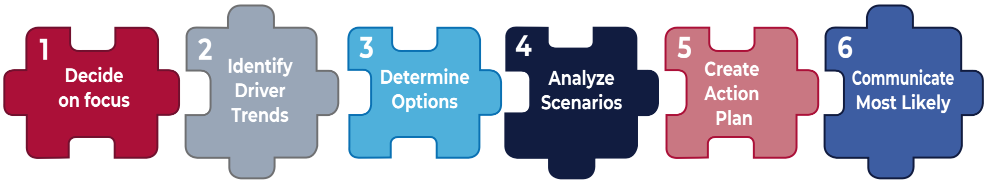
This approach is endorsed by many global organizations that use scenarios extensively to manage their businesses through uncertain times. In fact, **Scenario Management is the only method of planning, whether strategic or operational, that makes sense when you cannot predict the future.**

Running scenarios should be possible at any time and at any level of the organization as part of an integrated approach focused on strategy and execution. It is a process triggered by the unexpected that can inform on options facing the organization and help prepare a variety of responses. In other words, it allows businesses to be ready for whatever disruptions (or unexpected opportunities) come along.

Some of these scenarios can be run within a particular department, while others will require collaboration among several stakeholders to ensure the best outcome for the organization.

Whatever the scenario, several steps should be taken (Fig 9) to ensure time is spent on the most critical areas of the business.

Fig 9:
Scenario Management:
Preparing multiple action plans



Step 1: Decide on the scenario focus
It is easy to spend time running scenarios that are not that important. It is worth discussing potential scenarios with other stakeholders in relation to issues where there is a perceived the SEG. If they agree, then get them to assess the cause and potential impact to see if it merits spending time investigating possible actions.

One company we know would hold a senior management meeting every quarter to discuss what risks the company faced that could affect its ability to achieve strategic goals. The meeting aimed to debate and come up with the four most likely events that could happen, which would become the focus of the scenarios to be carried out that month.

Step 2: Identify drivers behind the current trends
This step looks at the associated trends of the focus area. If it is sales or a particular group of products where execution is failing, then that data is reviewed in terms of trends and key drivers. The relationships should be noted and how these could change based on the cause identified in Step 1. It is recommended that the scenarios focus on the two most important drivers and not all of them.

Step 3: Determine options
This involves writing a description of 3 or 4 scenarios that could take place over a set period. Those scenarios will typically involve a change to the selected drivers and could also include a change to the organization's business model. The scenarios can now be evaluated.

Step 4: Analyze scenarios
The results of each scenario are documented and contrasted with the current plan. Outcomes that seem nonsensical should be discarded. The rest should be analyzed thoroughly and discussed as to what would be the best response. Responses to each likely scenario are then modeled and assessed.

Step 5: Create an action plan for the selected scenario(s)
Based on the acceptable responses, action plans are developed that can be put into place should those situations arise. These plans will show how resources are to be reallocated and the overall impact on organizational goals.

Step 6: Communicate the most likely scenario
Out of all the scenarios, one will reflect what management believes to be the most realistic. This may just be the current plan or a modified version based on the selected scenario. This should be communicated to all stakeholders, along with how the decision was made. This will raise people's awareness of what managers see going on globally and how responses are formulated.

"One of the benefits of Scenario Management is the identification of key assumptions and events that can be monitored over time."
Jack Alexander,
Author and Thought Leader

Jack Alexander, author and thought leader, comments that one of the benefits of Scenario Management is the identification of key assumptions and events that can be monitored over time. If assumptions begin to deviate from those incorporated into the base plan, a gap will likely occur. In response, a course correction can be more easily affected based on the scenario analysis performed during the strategic planning process. These course corrections have been contemplated as potential responses to trigger events indicating the likelihood of another scenario occurring, speeding response times.

4.2 Product/service life cycles

Michael Huthwaite, Director of Product Management, Intelligent Reporting at Walmart, emphasizes that most businesses, products, and strategies follow a life cycle that consists of 4 phases. They start with an investment, followed by a period of growth, after which it plateaus (unless substantially revised through more investment) and declines (Fig 10). Positive Cash Flow is typically generated during Growth through to Decline stages, while cash injections will be required in the earlier stages.

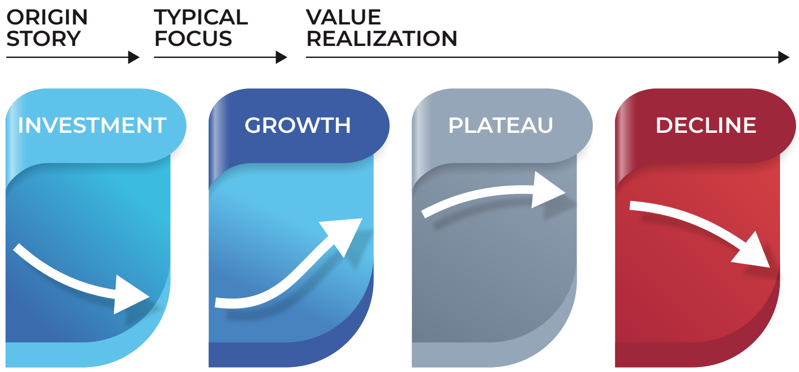


Fig 10:
The natural life cycle of products and services

To create realistic plans, **Huthwaite** stresses that it is important to plan the whole life cycle of any initiative.

Similarly, organizations typically have multiple products/initiatives – most of which will be at different stages of their evolution. To understand Cash Flow and profit potential, **it is vital to model the whole portfolio of products/initiatives, at an individual level, rather than taking a broad approach that ignores their different stages** (Fig 11).

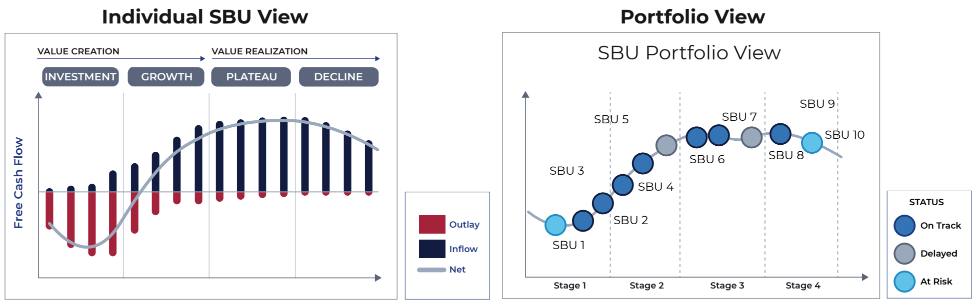


Fig 11:
Managing a portfolio of products/initiatives

This reduces the potential for the SEG as it enables the organization to forecast more accurately and to respond differently depending on the need/stage of the product. It will also highlight where organizations need to invest in maintaining a stable and profitable portfolio.

Gianluca Capuano, former FD at Janssen Europe, Middle East and Africa, told us that their business consists of a portfolio of products at different life cycle stages. 80% of sales, which represents 40% of the stock, are event-driven – i.e., they are subject to external factors such as regulatory controls, pricing, the number of patients they can reach, and so on. Each product had a different profile depending on where they are in their development cycle. When planning, **Capuano** told us, "One size definitely does not fit all." Their solution was to use a range of predictive models that used AI/ML algorithms according to the product's life cycle.

! Call to action

Has your organization adopted a Scenario Management mentality and framework yet?

If not, what is preventing this from happening?

Is it due to a lack of a suitable technology solution?

5. CREATING THE FP&A SEG ROAD MAP

5.1 Maturity Model

To help organizations overcome the Strategy-Execution Gap, we have developed the following Strategy Execution Maturity Model. It identifies 5 levels of maturity, starting at the most basic level through to Leading as required by Integrated FP&A (Fig 12).

For each level, there are 6 areas where FP&A are involved in strategy execution:

- Data – what data is accessed and stored for use in analyses
- Modeling – how that data is modeled and over what time periods
- Analysis – the analyses performed and used by the organization
- Process – how the planning processes are linked and conducted
- Technology – the technologies in use to perform analyses
- FP&A Role – how FP&A interacts with the organization

Integrated FP&A is where comprehensive fact-based decision-making is enabled that avoids the SEG:

- **Data** accessed is multi-format and available in real-time, covering both internal and external conditions.
- **Modeling** reflects the different life cycles of the organization's products/services from which a complete P&L, Cash Flow, and Balance Sheet are available.
- **Analyses** reveal the internal and external drivers of performance which are used in the models. Predictions are made by using AI/ML techniques, supplemented by good business judgement to produce a range of plausible scenarios for which the organization is prepared.
- Strategic, financial, and operational **processes** are harmonized and operate as one continuous activity focused on strategy execution.
- All the above are enabled by a modern planning **technology platform** through which all users plan around a central business model that meets both local and corporate requirements.
- Finally, FP&A adopts a proactive **business partner role** that oversees how business value is created.

"Integrated FP&A is where comprehensive fact-based decision-making is enabled that avoids the SEG."

5.2 Where to start?

The model can be used to identify where FP&A operates today and the 'next steps' it can take in moving to where it needs to be. Be aware that if FP&A is more mature in some areas than others, then it is the lower maturity level that applies to the organization.

Should an organization be in a position where FP&A is starting afresh, then moving to this new vision of FP&A tracks the order of the maturity model.

It all starts with data and in identifying the drivers of performance that impact every aspect of the business. It means going outside of finance, to really understand the business, and how it is affected by external forces.

Next is to harmonize the current planning processes. This involves arranging the drivers established above in a way that connects operational departments across the organization with strategy. This paves the way for the development of driver-based models.

Driver-based models should recognize product/service life cycles so they can be planned from start to end. Models are then used to assess different risks and opportunity scenarios from which responses can be managed.

To do all of this requires FP&A to become a trusted advisor to all levels of the business and to adopt new skills backed up by technology.

Fig 12: FP&A Strategy-Execution Gap Maturity Model

FP&A Strategy-Execution Gap Maturity Model

FP&A TRENDS
Best Practice in Financial Planning and Analysis

	DEVELOPING STATE		INTERMEDIATE STATE	LEADING STATE	
	LEVEL 1 - BASIC	LEVEL 2 - DEVELOPING	LEVEL 3 - DEFINED	LEVEL 4 - ADVANCED	LEVEL 5 - LEADING
DATA	SUMMARY GL	GL + KPIs	GL + OPERATIONAL	GL+ OPERATIONAL + EXTERNAL	MULTI-FORMAT HOLISTIC
	NO FORMAL DATA STORE	MULTIPLE DATA STORES	CENTRAL DATA MART	DIRECT ACCESS WAREHOUSE	REAL-TIME DATA LAKE
MODELING	BOTTOM-UP AGGREGATION	TOP-DOWN TARGETS, BOTTOM-UP FORECASTS	MIXTURE, TOP-DOWN, BOTTOM-UP	MIXTURE, TOP-DOWN, BOTTOM-UP WITH SOME AI/ML	AUTOMATE AI/ ML WITH HUMAN ADJUSTMENTS
	DEPARTMENTAL FOCUS	DEPARTMENT, LINE OF BUSINESS	DEPARTMENT, LINE OF BUSINESS	DETAILED PRODUCT	DETAILED PRODUCT / CUSTOMER
	FIXED CALENDAR VIEW	FIXED CALENDAR VIEW	MULTI-YEAR FIXED CALENDAR	FLEXIBLE CALENDAR VIEW	LIFE-CYCLE VIEW
	P&L	P&L, CASH	SEPARATE P&L B/SHEET	SEPARATE P&L, CASH, B/SHEET	INTEGRATED CASH, P&L, B/SHEET
ANALYSIS	P&L VARIANCE REPORTING	VARIANCE ANALYSIS	KPI TRENDS	DRIVER PROBABILITY	DETAILED DRIVER PROBABILITY
	MANUAL FORECASTS	EXTRAPOLATED FORECASTS	HUMAN IDENTIFIED DRIVERS	SOME AI/ML DERIVED DRIVERS	AUTOMATE AI/ML WITH HUMAN ADJUSTMENTS
	SINGLE VIEW OF FUTURE	SINGLE VIEW OF FUTURE	SINGLE VIEW OF FUTURE	MULTIPLE SCENARIOS	SCENARIO MANAGEMENT
PROCESS	DISCONNECTED	LINKED BUDGET / REPORTING	LINKED BUDGET / FORECASTING	LINKED STRATEGY / BUDGETS	CONTINUOUS STRATEGY LOOP
	UNCONTROLLED SUBMISSIONS	WATERFALL BASED APPROVAL	WORKFLOW BASED APPROVAL	ON-DEMAND APPROVAL	AUTOMATED APPROVAL
	ANNUAL	ANNUAL	ANNUAL WITH ROLLING FORECAST	ROLLING FORECAST	SBU LIFE CYCLE
TECHNOLOGY	SPREADSHEET BASED	GL/ERP + SPREADSHEETS	CONSOLIDATION APPLICATIONS + BI TOOLS AND SPREADSHEETS	STANDARDISED PLANNING TOOLS	INTEGRATED PLANNING PLATFORM
	NO STANDARD SYSTEMS	DISCONNECTED PLANNING TOOLS	PLANNING MODELS	LINKED PLANNING MODELS	INTEGRATED PLANNING MODELS
	NO PREDICTIVE ANALYTICS	TIME-SERIES / CORRELATION TOOLS	INTEGRATED ANALYTICS	ADVANCED (AI/ML) ANALYTIC TOOLS	EMBEDDED AI/ML TOOLS
FP&A ROLE	DATA RECEIVER	DATA CONSOLIDATOR	SCORECARD FACILITATOR	INSIGHT GENERATOR	BUSINESS VALUE OVERSEER
	FINANCIAL ANALYST	TARGET ACHIEVEMENT REPORTER	TARGET ADVISOR	TARGET CHALLENGER	PROACTIVE BUSINESS PARTNER
	FINANCE TEAM VIEW	HEAD OFFICE VIEW	DEPARTMENTAL VIEW	BUSINESS ENVIRONMENT VIEW	HOLISTIC BUSINESS VIEW

Overcoming Strategy-Execution Gap: Dorrington Plc Case Study

Michael Jenkins is FD at Dorrington Plc, a London-based property investor that owns more than 2,000 apartments and 30 office buildings. Although the business is strong, **Jenkins** felt that a missing piece was a clear and explicit connection between the company's longer-term strategic objectives, the shorter-term actions or numbers captured in the budget and, ultimately, the company's day-to-day actions.

The goal from leadership was clear: to build an integrated FP&A function to assess business opportunities much quicker in a rapidly changing environment and where what-if scenarios routinely occur.

With a new tool in the form of Anaplan, **Jenkins** believes that the company was better able to perform robust scenario planning, answer what-if questions, and plan for both the short and long term. Even better, Dorrington could report results in the context of the targets set by tying the P&L to KPIs at operational levels.

Today, Dorrington has a budget equipped with multiple scenarios tied to the base-level budget. As such, the business understands the impact of each decision and what resources are required to make plans a reality.

Looking back on their success thus far, **Jenkins** has several pieces of advice for other FP&A professionals around implementation:

- Connect your process and systems: a new system needs to be supported by robust processes to ensure it is supplied with the quality data required to take advantage of the technology.
- Best practice and knowledge transfer: business needs a common sense tool, giving operational owners the capabilities to operate on their own.
- Create a scalable solution for your business: employ standardization and best practices where applicable.
- Collaborate across teams: foster enthusiasm and goal ownership to ensure new systems produce the maximum promised value.

Now that implementation has succeeded, Dorrington looks to the future to build out its FP&A systems and capabilities further.

6. CONCLUSIONS & RECOMMENDATIONS

Clara Hoon, International Media Finance Leader at Nielsen, once described today's FP&A leader as "... the wise man next to the emperor, with FP&A seen as the voice of the business." To be this 'voice' requires FP&A to move towards higher-value activities such as insight generation and influencing alternative courses of action, focusing on closing the SEG.

Closing the SEG means turning away from traditional methods of planning and adopting flexible processes and modern technology. **Chris Davenport, Business Value & Strategy Director at Anaplan**, explains that "organizations must move away from periodic and static processes supported by legacy systems patched with spreadsheets. Instead, planning should be agile and continuous to enable real-time decision-making". He goes on to say that underpinning this approach requires a mixture of reliable data, real-time insights, and the use of AI/ML.

However, **Davenport** continues, "The challenge is human in nature, cultural change is needed to get all the people in an organization onto a planning platform, where they share data and where processes are cross-functional. Realistically, the keys to getting this right start at the top. Information must be democratized, planning must be agile with scenarios, and the technology used must be modern and fit for purpose. Then a transformation champion needs to be selected and empowered by these leaders to make the changes that are needed."

"FP&A is set well to be a transformation champion within organizations."

FP&A is set well to be a transformation champion within organizations. With this in mind, our final recommendations are for FP&A to:

- Recognize that Strategy-Execution Gaps exist in most organizations, which adversely affect performance and the ability to achieve strategic goals.
- Gain senior management approval, emphasizing that change is necessary – traditional processes no longer work.
- Build a strong cross-functional team to lead change and innovation – it's not just 'another' project.
- Approach transformation in stages, using a build-and-test approach with stakeholders. This will reinforce the message that transformation is a journey, not a destination.
- Educate users and upskill finance teams to take advantage of the latest predictive technologies.
- Adopt a Strategy Management approach for dealing with uncertainty.

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4. Chris Davenport, Business Value & Strategy Director at Anaplan, **United Kingdom**
5. Gizelda Ekonomi, Group Financial Planning Transformation Senior Manager at a Fortune 100 company, **United Kingdom**
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18. Guilherme Saraiva, Senior Director, FP&A at Warner Bros. Discovery, **United States**
19. Benjamin Wann, Manufacturing Product Cost and FP&A Consultant, **United States**

Other Sources

- FP&A Trends Survey 2022: How Technology Advances FP&A to the Role of Strategic Advisor
- FP&A Trends Research Paper 2022: The FP&A Maturity Model: Achieving Intelligent Transformation
- FP&A Trends Research Paper 2021: Skills of the Future: Best-in-class FP&A Teams and How to Build Them
- The Artificial Intelligence / Machine Learning FP&A Committee

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